



County of Los Angeles **CHIEF ADMINISTRATIVE OFFICE**

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March 28, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
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Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

State Budget Update

A Larger Budget Deficit? Last week at the CSAC Legislative Conference, the Director of Finance warned the group not to expect any additional revenue from the May Revise. Based on their preliminary analysis, the May revenue forecast would be lower than the one used for the January Budget. However, he did not hint at how much lower. This week a rumor is circulating in the Capitol that revenue collections are lagging so badly that the deficit could be as much as \$5 billion higher or \$40 billion based on the Administration's numbers. Yesterday, at the Assembly Budget Subcommittee #2 on Education, the Chair asked the Finance Department representative about the rumor but they declined to comment, deferring to the May Revise.

Disaster Service Workers: Earlier this week we learned of a budget cut and proposed policy change that could impact a number of departments that rely upon Disaster Service Workers (DSW) to assist them in responding to a declared disaster. Under current law, the State has paid the cost of hospitalization and medical care for DSW's injured during their service. The Governor proposed to eliminate the balance of the State funds set aside for this purpose in the current year, as well as end the State's responsibility entirely in the budget year. The savings to the State are quite small - \$219,000 in the current year and \$663,000 in the budget year – so the potential County impact is not likely to be large. One of the budget reductions bills recently enacted – SB1X 19 – contains the Governor's recommended reduction in the current year but defers a decision on the permanent reduction.

Realignment Work Groups: As reported in our March 20, 2003 Update, a number of working groups have met at the request of the Big Five – the Governor and the Democratic and Republican Legislative Leadership – to review various programs proposed for realignment by the Governor or the LAO. In addition, to the health and human services programs mentioned in our previous Update, two groups were added to consider LAO proposals on juvenile and adult corrections.

The first meeting occurred on March 20, 2003. At this point, the groups are reviewing and commenting on programs rather than making recommendations about which programs should be in or out of realignment. In addition to representatives from the Administration, the groups include Legislative and LAO staff, as well as staff from CSAC and affiliated organizations such as the California Welfare Directors Association. It is unclear how the working groups will proceed. No future meetings were scheduled.

Budget Subcommittee Hearings: Subcommittee #1 of the Senate Budget and Fiscal Review Committee met on March 24, 2003 and rejected the realignment of child care proposed by the Governor. Committee staff warned the child care community that they should expect cuts and to propose structural reforms that yield savings. The following day, the LAO testified in Assembly Budget Subcommittee #2 that if the Legislature rejects the realignment of child care proposed by the Governor, they will have to increase funding for education by \$280 million more than the Governor's budget. On March 24, Senate Budget Subcommittee #3 rejected the realignment of 100 percent of long term care and 15 percent of Medi-Cal benefit costs. Today, Subcommittee #3 rejected the realignment of the six children's programs proposed by the Governor, as well as Adult Protective Services, California Food Assistance, and Food Stamp Administration. A week earlier, the Subcommittee rejected the Governor's proposed realignment of mental health programs. Despite the rejection of many of the programs in the Governor's realignment proposal, the Senate seems to be quietly developing a proposal of its own.

Senate Subcommittee # 2 took up some of the Governor's corrections related proposals expressing skepticism about the elimination of funding for the Board of Corrections' inspection of local juvenile justice detention facilities because it might expose the State to a legal liability. The County's Interim Chief Legislative Representative testified against elimination of the Corrections Training Fund and the increase in sliding scale fees for Youth Authority commitments.

The full Senate Budget and Fiscal Review Committee met on March 25 and 26 to discuss the Governor's budget and the Senate Republican alternative budget plan which would balance the budget over two years and substitute a 7 percent across the board reduction in State spending for the Governor's \$8.3 billion tax increase.

Senator Brulte presented the Republican plan to an unsympathetic audience of Democratic Senators who made it clear that they did not like the Governor's proposed cuts and liked Senator Brulte's additional 7 percent reduction even less. For example, in the politically sensitive area of K-12 education, a 7 percent reduction would add \$1.8 billion to the Governor's \$2.2 billion reduction and \$1.1 billion deferral and would require the suspension of Proposition 98. In addition, the Legislative Analyst testified that \$9.6 billion of State spending (debt service, Federal MOE's and penalties, court settlements, for example) can not be cut so that the equivalent reduction on all other spending would have to be 8 percent and if K-12 education were exempt, the required reduction in the remainder of the budget would have to be around 14 percent, in addition to whatever cuts the Governor had already proposed. Senator Brulte responded that he did not like the proposed cuts either but that the State was almost bankrupt because Republican warnings about excessive spending had gone unheeded in prior years. He noted that in the past few weeks there had been more meetings of the Big Five than had taken place in the previous three years combined, a sign that the views of Republicans would have to be taken into account in a final budget settlement.

On the Assembly side, budget subcommittees have been meeting with their policy committee counterparts but the hearings have been informational. Though decisions are not being made, member's questions indicate concerns and possible clues to future directions. In Subcommittee #1, the Administration was asked to provide "realistic" alternatives to their proposed realignment of CalWORKs. And in Subcommittee #4, members asked tough questions about the practicality of the LAO's proposed realignment of juvenile and adult probation.

Bipartisan Budget Group Explores Other Budget Approaches: Given the reluctance of Republicans to vote for a tax increase and of Democrats to approve many of the cuts proposed by the Governor, a bipartisan group of Assembly members have been looking at an approach along the lines of what Orange County did when it declared bankruptcy. As reported in the *Los Angeles Times* on March 23, 2003, instead of solving the entire budget problem in one year, the State would engage in major borrowing over a five to seven year period, allowing economic (and revenue) growth to solve a significant part of the problem. Of concern to local governments, the increased revenue from the soon-to-be triggered VLF increase - \$4 billion annually - has been suggested as a way to pay off the debt. It is unclear whether the State would continue to provide the VLF backfill to local governments, although bipartisan support to maintain the backfill has been strong. Such a multi-year approach may require a constitutional amendment. The Davis Administration has been cool to the idea of a multi-year approach, citing concerns that the cost of debt service could limit what the State needs to borrow for schools and infrastructure projects later in the decade.

Pursuit of County Position on Legislation

SB 593 (Ackerman) would shift responsibility for the assessment of personal property owned by commercial air operators from the County Assessor to the State Board of Equalization (BOE) beginning in Fiscal Year 2004-05. Revenues derived from the assessment of this property would continue to be allocated in the same percentage shares as revenues derived from locally assessed property among the jurisdictions in which the property is located. Responsibility for assessment of real property owned by commercial air operators, including land, buildings, possessory interests and fixtures would remain with local assessors. The total assessed value of commercial aircraft in Los Angeles County is approximately \$4 billion.

According to the Assessor, accurate appraisal of commercial aircraft is very complex, requiring specialized knowledge and years of experience. The Assessor has an Appraiser Specialist assigned on a full-time basis to value commercial aircraft and the frequent auditing of airlines requires specialized accounting knowledge of their operations. Because the BOE's expertise is with regulated public utilities valued on a unitary basis, the Assessor believes their inexperience may result in less than fair market valuation of commercial aircraft.

The Assessor notes that there is no mandatory audit requirement for BOE-assessed personal property as is the case for locally assessed personal property. In Los Angeles County, the total audit deficiency assessment for the major airlines over the last four years was over \$150 million in assessed value, which would have cost the County \$1.5 million in property tax revenue if there had not been a mandatory audit. Without a mandatory audit requirement, the Assessor believes that inaccurate BOE assessments could cost the County a significant amount of property tax revenue.

The Assessor further indicates that SB 593's requirement to split the assessment responsibilities for airlines by giving personal property to the BOE and real property to local assessors will increase administrative costs to local and State government because it will require coordination between both levels to ensure that no property is doubly assessed or escapes assessment.

Because of the administrative complexities that will result and the risk of inaccurate assessments that would reduce County revenues, the Assessor recommends that the County oppose SB 593. We concur with this assessment and also believe that this transfer of responsibility will diminish the County's authority in this area. **Therefore, our Sacramento advocates will oppose this bill.**

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Opposition to SB 593 is consistent with existing policy to protect the County's revenue streams and oppose any further erosion of the County's property tax base. Therefore, our Sacramento advocates will oppose SB 593. The Assessor is already on record in opposition to this measure. SB 593 is set for hearing on April 23, 2003 in the Senate Revenue and Taxation Committee. At this time, there is no registered support or opposition to the bill.

We will continue to keep you advised.

DEJ:GK
MAL:JR:ib

c: Executive Officer, Board of Supervisors
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